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RUEHDE/AMCONSUL DUBAI PRIORITY 0119
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S E C R E T SECTION 01 OF 02 IRAN RPO DUBAI 000041

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SUBJECT: IRAN: MAKING ITSELF UNATTRACTIVE TO FOREIGN INVESTMENT

REF: RPO DUBAI 0035

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CLASSIFIED BY: Jillian Burns, Director, Iran Regional Presence
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REASON: 1.4 (d)

1.(S) Summary. An Iranian businessman who was involved in Dubai-based Al Aqili Group's tobacco distribution network in Iran discussed how it lost distribution rights with IRPOffs. The businessman said Al Aqili lost its \$300 million/annual tobacco distribution network in Iran after a bid to purchase Iran Khodro's shares of Parsian bank went sour. The businessman predicted that international banks would not invest in Iran due to the government's forced lowering of interest rates. He said there is currently a run on private banks in Tehran by account holders who believe the banks will not survive with the lower rates. The businessman said Al Aqili's tobacco business in Iran has gone to JTI (Note: JTI is a Japan Tobacco and RJRI - the international operation of RJ Reynolds - conglomerate. Endnote) He claimed that JTI's operations in Iran are controlled by the "Lebanese mafia" and that its tobacco profits are funding terrorism in Iraq. He did not offer any proof to back up this claim, only advising that we should follow the network of JTI's distributors, claiming they were all Iraqis. In general, the businessman claimed that corruption is on the rise in Iran in response to political uncertainty. While this is an unconfirmed single source cable -- from an individual who would naturally have an axe to grind with JTI -- Al Aqili's saga demonstrates that the Iranian government continues to deter foreign investment through its own actions. End Summary.

Al Aqili's business in Iran

2.(S) IRPOffs met June 3 with an Iranian businessman who said that he was involved in managing UAE-based Al Aqili Group's tobacco distribution network in Iran for six years. The businessman said Al Aqili faced multiple challenges when it initially began distributing tobacco in Iran as it was the first foreign distributor in the IRI. In the beginning, police regularly arrested the company's local distributors and seized Al Aqili shipments, as it was not widely known that a foreign operator could legally distribute cigarettes. After a few rough years, the businessman said tobacco distribution in Iran turned into an annual \$300 million industry for Al Aqili.

3.(S) The company's prospects in Iran took a negative turn roughly six months ago. According to the businessman, Al Aqili

apparently alienated itself when it purchased Iran Khodro's 25% share of Parsian Bank, a private Iranian bank. The businessman claimed that while Al Aqili was in negotiations to buy the shares, former Intelligence Minister Mohammad Reshahri approached Parsian Bank about purchasing the shares. The managing director of Parsian Bank reportedly told Reshahri to "go away," saying he should have approached Iran Khodro and not the bank if he had wanted to negotiate the price of the shares. The businessman inferred that Reshahri must have used his influence against Al Aqili, since soon thereafter; Ahmadi-Nejad publicly criticized foreign investment in Parsian Bank.

4.(S) After Ahmadi-Nejad's criticism, Al Aqili was forced to return its shares of Parsian Bank to Iran Khodro, according to the businessman, although it is still waiting for its initial \$60 million investment to be returned. In addition, Al Aqili reportedly lost its license to distribute tobacco in Iran. An April 16, 2007 Baztab article referred to the annulment of the "biggest private sector transaction at Tehran Stock Exchange" to date in which 28.8% of Parsian shares - a \$320 million investment -- were transferred from a "government affiliated auto-making company" to private-buyer Mohammad Rostami Safa and a "Dubai-based Iranian partner." According to the Baztab article, "a stock exchange official told the press that the transaction had been annulled because of administrative irregularities."

5.(S) When asked if Al Aqili spoke to Ahmadi-Nejad about the issue during his May 13 visit to Dubai (reftel), the businessman said Al Aqili did not get the meeting it requested with Ahmadi-Nejad. He believed, however, that UAE officials likely raised Al Aqili's case in their own bilateral discussions with Ahmadi-Nejad.

6.(S) According to the businessman, Al Aqili still retains a presence in Iran -- two tobacco manufacturing facilities, a cement factory, and a smaller-scale foodstuff and consumable distribution network -- although the foodstuff and distribution network is operating at a loss. The businessman said Al Aqili

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hopes to eventually export out of Iran, but he did not specify which products. He also mentioned that Al-Aqili does significant business distributing tobacco in Iraq and has a presence in 22 cities.

JTI's business profits funding terrorism?

7.(S) When asked who made up for the tobacco demand previously met by Al Aqili, the businessman said "JTI." (Note: JTI was created in 1999 when Japan Tobacco purchased RJRI - the international operation of RJ Reynolds. Endnote) The businessman claimed that JTI in Iran is controlled by "Lebanese mafia;" he alleged that the company's Iraqi directors in Iran are funneling the company's profits to support terrorism in Iraq. When asked to specify which groups JTI was allegedly funding in Iraq, the businessman merely said "trace the history of their distributors." He acknowledged that the IRGC likely also had a hand in smuggling cigarettes into Iran but indicated that JTI controlled a much more significant share of the tobacco market.

Iran's investment climate

8.(S) When asked by IRPoffs about the contradictory nature of Ahmadi-Nejad's condemnation of foreign investment in Parsian Bank, and other more recent statements by Iran's Money and Credit Council encouraging foreign investment in the banking sector, the businessman snidely remarked that with the lowering of interest rates, foreign banks "would not invest in Iran anyway." (Note: Ahmadi-Nejad recently forced all public and private banks to set borrowing rates at 12%. State banks had been set at 14% and private banks were offering rates of 17-28%. End note) He said that the government order to lower interest

rates has scared the customers of private banks, who worry that the banks won't remain solvent. This has reportedly led to a real "run" on the banks. The businessman also predicted another spike in real estate prices as individuals pull their money out of banks. He maintained that corruption is on the rise in Iran, due to the current uncertainty in Iran. He said that because people do not know if they will still have their jobs tomorrow, they are "looking to get the most of their positions today."

9.(S) Comment. This is a single source cable from a new IRPO contact and the veracity of the statements cannot be verified. His comments about JTI are noteworthy but should be caveated as coming from the company's direct business competitor. What Al Agili's saga does demonstrate, however, is that the Iranian government is often more effective than any kind of external pressure in scaring off foreign investment.
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